

**Title:** Portuguese Footwear - The Sexiest Industry in Europe

**Field of Study:** Organizational Behavior + Cluster Strategy

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**Author:** Pedro Sena-Dias

**Thesis Supervisor:** Prof. Miguel Pina e Cunha

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## Abstract

This case study deals with the reasons why the Portuguese Footwear Cluster evolved from a small industry focused on the Portuguese internal market into a high-tech industry capable of designing and producing some of the best and most expensive shoes in the world. It went from using the low labor costs of an under-developed economy to produce long series of shoes for pre-designated brands in Northern Europe to having the ability to produce some of the highest quality shoes in the world, in small orders, designed and delivered in record timing, while offering a service of excellence.

In 1960, when Portugal became a founding member of EFTA, the footwear industry in Portugal was globally irrelevant, producing low quality shoes directed to the puny internal market and its African colonies. The new free trade zone with economies much more developed than itself, led to the transfer of the labor-intensive, low skilled manufacture from the UK and Scandinavian countries to Portugal. Mostly through joint ventures, the industry was able to mechanize itself so it could produce shoes in long series at low prices. It grew based on that model up until the 1990s, when the emergence of the Asian countries meant either a different strategy or extinction. Taking advantage of a clarified leadership of its trade association, it used the European funds made available to it during the 1990s, to modernize its factory floors, so it could become more nimble and flexible, expand its design capabilities and dramatically change its image abroad.

The role of the trade association, APICCAPS, was instrumental throughout the process going well beyond what came to be expected of trade associations. It used its privileged position to provide understanding regarding the current situation and competitive landscape, alerting for changes ahead and at the same time providing a strategic vision on how to deal with the challenges. Moreover, it helped companies get the resources they needed by creating a research center in collaboration with a University, by creating a process that allowed companies to learn from each other via the show casing of projects sponsored by the association or by helping industrials traveling to locations where new customers could be found.

The case study provides insight on how the trade association leadership, which has no formal authority over its members, was able to guide and motivate an industry through a consistent positive approach. That approach focused on the solutions, on the opportunities and on the success stories of companies in the cluster rather than on what was wrong or needed to be addressed.

Based on this case, one could use the leadership role of the trade association to discuss and change leaders' roles and styles in other sectors or even companies.

**Keywords:** Cluster, Trade Association, Footwear, Positive Leadership, Manufacture, Globalization, China, Portugal

## Statement of Research

How does economic development come to be and how can it be sustained, especially in more developed regions in which innovation is key? According to Michael E. Porter the answer is related with the vitality of the Clusters that comprise it. The crucial question is then how to influence the vitality of a Cluster?

The lack of formal authority and differences between the constituents of the cluster make this a complex management problem, difficult to solve. The case study at hand looks at why the Portuguese Footwear Cluster has been able to evolve and develop while other Portuguese manufacture clusters have not. By looking at the Portuguese footwear industry history from the trade association's point of view, we were able to understand the relevance and scope that its leadership actually had in the guidance of the cluster through changes in the environment and in creating a platform that promoted sustained growth. This gives us a hint of how ones' leadership approach can radically change the way a cluster competes and excels in a global economy, and more broadly, how ones' leadership approach can positively impact organizations.

**Keywords:** Leadership, Positive Organizational Behavior, Porter, Diamond Analysis, Cluster Strategy

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PEDRO SENA-DIAS  
MIGUEL PINA E CUNHA

## The Sexiest Industry in Europe (A)

### Welcome to Free Trade

*“During the seventies and early eighties we were basically just selling production minutes.”<sup>i</sup>*

João Maia, APICCAPS’ Executive Director

In the early 1990s, it became clear that China would sooner or later become a WTO<sup>ii</sup> member. Manufacture industrials in Portugal had to adapt, or risk being obliterated by the clear price advantages that China and other Asian countries could offer [Exhibit 1A]. The manufacture of labor-intensive products was about to be revolutionized by easy access to hundreds of millions of workers at extremely low wages. Companies all over the world were trying to find the right strategy to handle the new situation. Many developed industries could increase their margins, all of a sudden, by shifting production to Asia but others, such as most of the Portuguese manufacture, which based their competitiveness in relative low prices, would have to compete differently. China ended up joining the organization in 2001, and if for some industries quotas and tariffs were imposed, for others, such as the footwear industry, open field competition demanded new strategic approaches from everyone.

How was the footwear industry in one of the smallest and less developed western European countries going to prepare and adapt to the challenges brought by direct competition with the most populated country on earth, capable of offering unmatched low prices? What were the alternative strategies that the country and the footwear industry in particular could use? Where should it spend its limited resources? These were some of the questions that the industry had to answer.

#### **1960, Portugal opens up to northern Europe**

Portugal went through much of the 20th century isolated from the rest of Europe, focused on itself and on its African colonies. This political isolation had significant consequences in terms of economic development, as well as in business. In fact, in 1960 Portugal’s GDP per capita (€261 in today’s Euros) was 26% that of England’s<sup>iii</sup>. In spite of the isolationism, Portugal joined the EFTA (European Free Trade Association) in 1960, mostly because of its traditional

strong connection with the United Kingdom, and remained a member until 1986, when it formally joined the European Union (then known as the European Economic Community).

#### *The EFTA years, 1960-1973*

Portugal was a founding member of the EFTA, along with Austria, Denmark, Norway, Sweden, Switzerland and the United Kingdom. Meant as a parallel to the EEC, EFTA was “set up for the promotion of free trade and economic integration to the benefit of its members”.<sup>iv</sup> Portugal’s EFTA membership occurred under Salazar’s dictatorship and was extremely important for the opening of a, until then, very closed economy. The agreement was very favorable to Portugal as it managed to get a more gradual dismantlement of the custom barriers due to its low industrialization level and market size, and at the same time was able to access the free trade zone of more developed economies.<sup>v</sup>

“Until 1960, close to 100% of the footwear products produced in Portugal were directed towards domestic consumption or towards the Portuguese colonies in Africa”, explained João Maia, APICCAPS’ Executive Director. With the opening of the trade with the EFTA countries, the production of the footwear increased 50%, from 1962 to 1972. Half of this growth was in exports, with three quarters of exports going to EFTA countries, mostly to UK, Sweden and Denmark.

The 100% private ownership of the industrial footwear companies<sup>i</sup> allowed individual businessmen, with an entrepreneurial attitude, to change quickly in order to adapt to the opportunities that a new market place offered. They started traveling and inviting foreign clients to visit in order to attract buyers for their production capacity or to adapt their factories to the needs of the foreign buyers. Foreign companies came to Portugal either to open new or to buy and refurbish factories, due to low wages, geographic proximity and trade agreements, as well as a relatively stable political outlook. As in other sectors, there was a sector association, Grémio do Calçado, which integrated only the footwear producers and not the other members of the cluster (namely the leather producers) and, to which, membership was mandatory. Nonetheless, the association had very limited reach and not much international scope, thus the people at the helm of the companies were the main intervenients in the industry’s evolution during this period.

#### *1973, the first EEC bi-lateral agreement*

When in 1970, the UK applied to accede to the EEC, which ended happening in 1973, EFTA’s influence became less relevant and Portugal had to search ways to increase trade with the new larger EEC trade zone. This was achieved through the bi-lateral agreement of 1972 whose goal was to gradually dismantle trade barriers of industrial goods. This agreement opened new markets such as Germany and France, which rapidly became among the major importers of Portuguese footwear.

From 1972 to 1981, production increased 125% in spite of a stagnation of internal consumption. In fact, during that decade exports of footwear grew by 251%. It was during this period that the 1974 coup d’état brought down the dictatorship and instituted the democratic regime. Democratization opened the door to a full membership in the EEC. During this period, Portugal increased exports to EEC countries, namely Germany, France and Belgium from 4% of total exports in 1972 to 33% in 1981<sup>vi</sup>.

*The full EEC membership*

When Portugal became a full member of the European Community in 1986, the Portuguese footwear industry grew massively: “The decade of 1980 saw production multiplied by a factor of 10.”<sup>i</sup> Many European brands established factories in Portugal or sub-contracted Portuguese factories to produce their long series of footwear. “This was the decade in which we sold minutes of production. British, Scandinavian, French and German brands hired or bought Portuguese companies. They told us exactly what material to use, which design, at which price to buy each material and how many shoes to deliver by a given date... every single detail was decided by them and we were only selling the production time”, says João Maia regarding this period. Growth was thus not based on any added value, it was achieved through straight forward long series produced for a pre-designated buyer.

**From just selling production minutes to selling the *whole* shoe**

The industry excelled by having a clear path delineated ahead, one that focused on international markets and used its proximity to better serve the European clients that preferred high quality leather footwear in which Portugal gained expertise over decades. Since its inception in 1975, the sector association (APICCAPS - Portuguese Footwear, Components, Leather Goods Manufacturers’ Association), which included manufacturers and leather suppliers, was able to be a center of knowledge<sup>vii</sup> that brought together suppliers and producers in order to achieve a common goal, the industry’s sustained growth as a whole. The cluster was able to get constant sound advice from top Portuguese academics since 1978. It was then that Miguel Cadilhe, an economics professor who became Finance Minister in 1985, wrote the first strategic plan for the industry at the request of the sector’s association. From then on, every 5 years, a new strategic plan has been created by top academics. Among those are Carlos Costa in 1983, who became governor of the Banco de Portugal in 2010, and Alberto Castro, who was then Dean of the Católica Porto Business School<sup>viii</sup>.

Improved serial production skills and machinery together with cost advantage supported the industry’s growth in the 1980s. Guided by APICCAPS, the cluster reached the 1990s in a high note by simply modernizing the way it sold production time. The creation of the technological center in 1986, along with the funds made available by Europe, allowed them to innovate in terms of production flexibility during the 1990s, optimizing factory floors to what the European high-end brands needed: small and frequent orders of high-quality and innovatively designed leather shoes. From 1993 to 2003 productivity driven by great quality products, co-designed with buyers and delivered in record time, grew close to 30%, when measured in pairs by employee, from 1,750 pairs per year to 2,250; and more than 60%, when measured in gross value of production per employee, from €1,100 per year to €1,800 [Exhibit 2A].

If one factor of growth was the footwear industrials’ ability to capitalize on the European funds in order to modernize their factory floors, another was the willingness to maintain an international effort to strengthen relationships with high-end European brands. By being ever present in the sector fairs and by organizing their own fair, Portuguese industrials were able to show European clients that the Portuguese factories were modern, the service offered reliable and the products of high quality.



**2001, China enters WTO. Now what?**

By the end of the 20th century, the industry was harvesting the fruits from the trees that the Technological Center had planted: sophistication, design, marketing and service responsiveness. The sector overcame difficulties and reached the 21st century as the third biggest exporter of leather footwear in the world, in a market that had changed dramatically: clients were buying based on lifestyle choices rather than on practical need. The industry had adapted to these new demands.

Nonetheless, as China entered the WTO in 2001, the sector fell 30% in number of pairs produced. The biggest foreign companies left or were downsized [Exhibit 3A]. The big question then was if the industry had done enough to be competitive going forward. If not, what other strategic avenues should it have pursued to anticipate and prepare the arrival of the Asian competitive tsunami?

**Exhibit 1A:** Average Export Prices per Region, in *APICCAPS' World Footwear Industry Yearbook 2011*

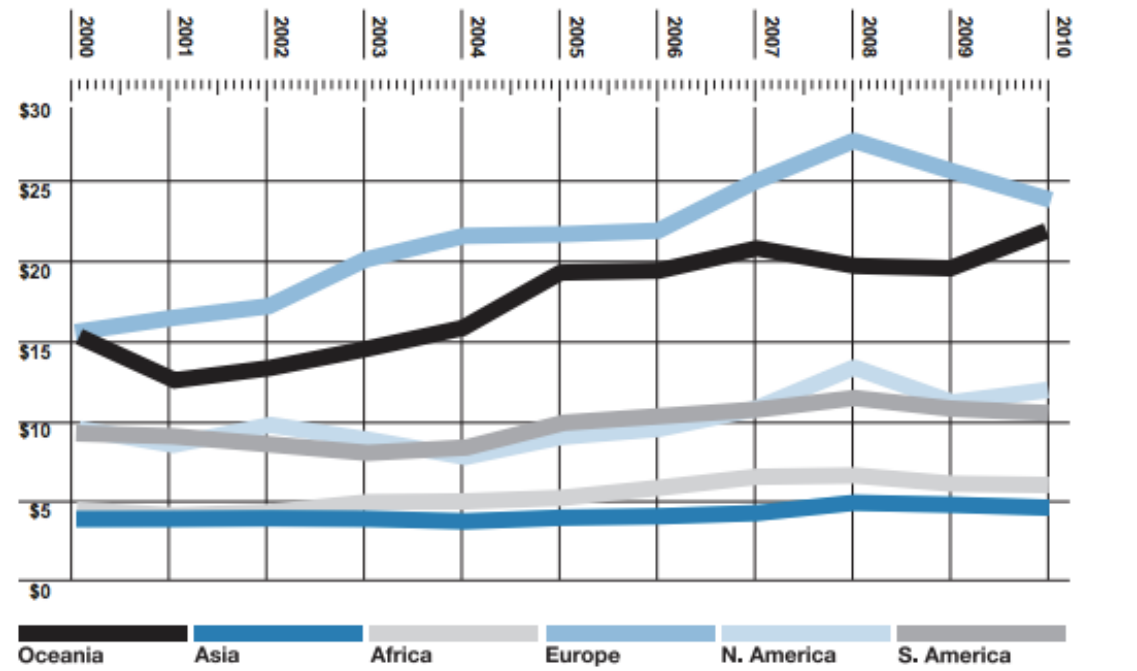
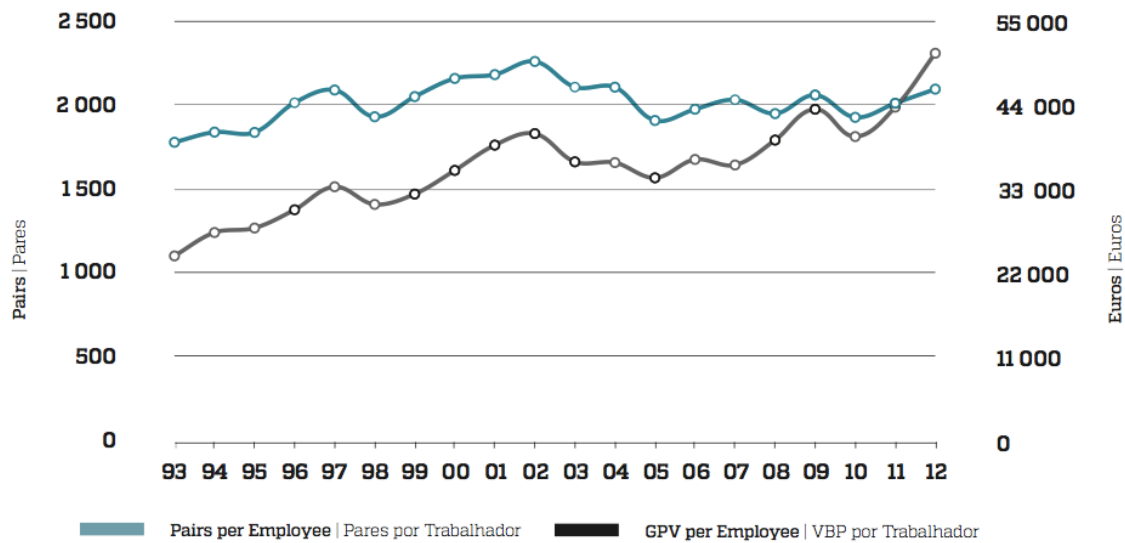
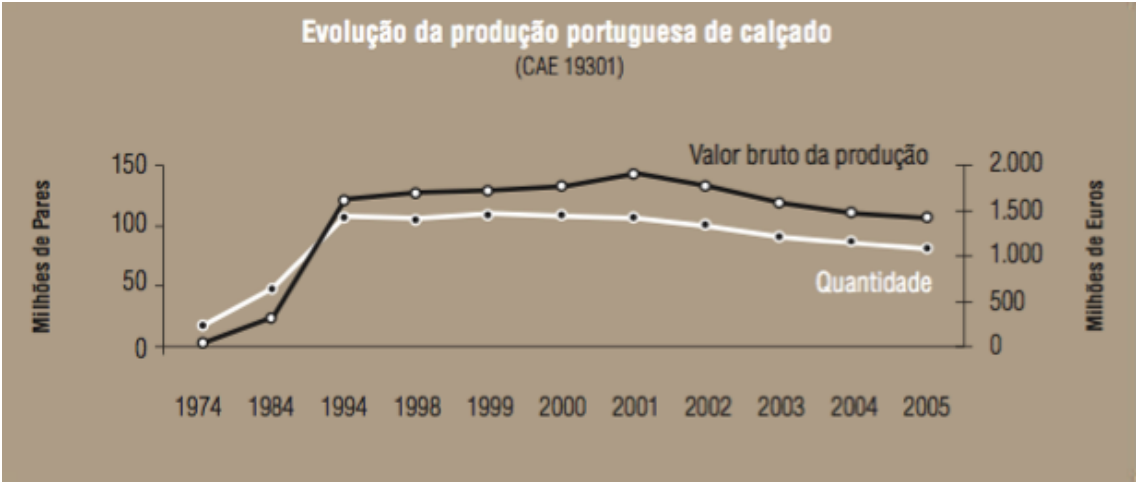


Exhibit 2A: Footwear Production by Employee, in APICCAPS Statistical Study 2013

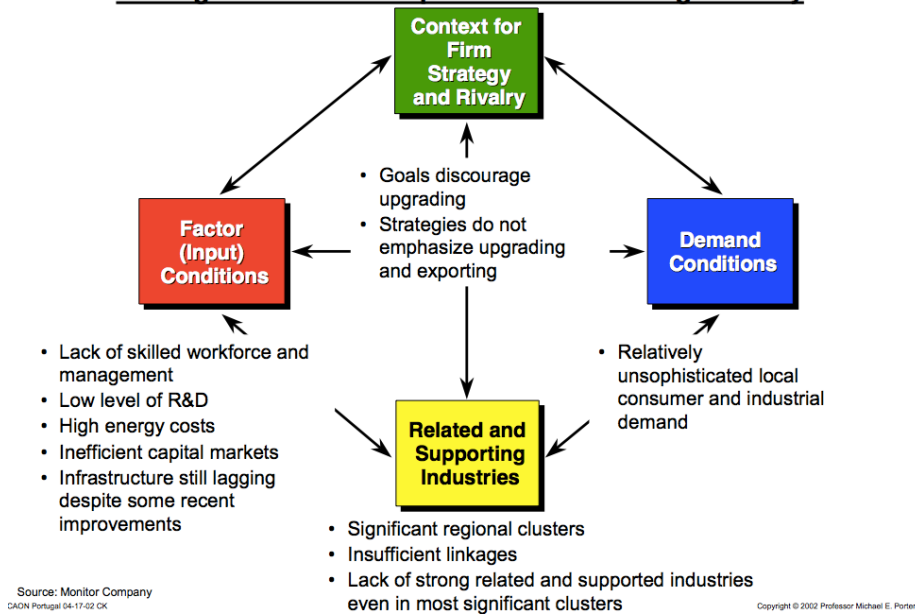


**Exhibit 3A:** Portuguese Footwear production (in Millions of Pairs and Millions of Euros), in *APICCAPS Strategic Plan 2007-2013*

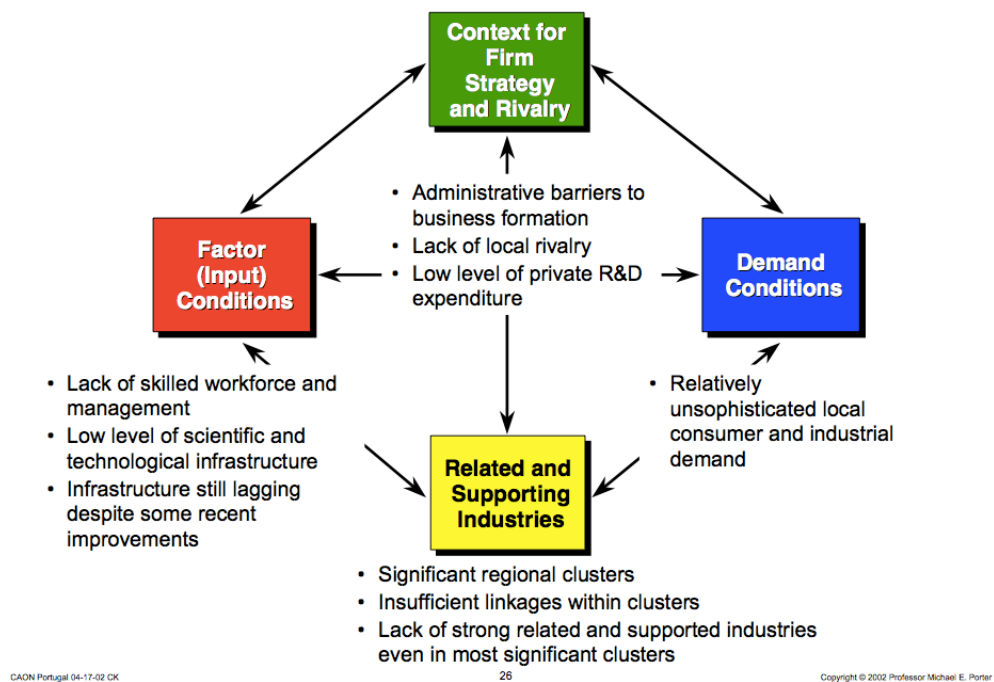


**Exhibit 4A:** Conclusions of the Porter Report 1994 (the report was commissioned by the Portuguese government to Michael E. Porter in 1992, so that he could evaluate and propose a strategy to the Portuguese economy).

**Portuguese Diamond in 1994**  
**Findings from “The Competitiveness of Portugal”-study**



Porter update to Portugal's Diamond in 2002



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<sup>i</sup> From interview with João Maia, APICCAPS' Executive Director

<sup>ii</sup> World Trade Organization

<sup>iii</sup> From FRED database

<sup>iv</sup> EFTA's official website: [www.efta.int](http://www.efta.int)

<sup>v</sup> Portugal and European Integration, 1947–1992: an essay on protected openness in the European Periphery, Lucia Coppolaro & Pedro Lains, e-journal of Portuguese History, 2013

<sup>vi</sup> Carlos Costa, Indústria Portuguesa do Calçado, APICCAPS, 1983

<sup>vii</sup> From interview with Prof. Alberto Castro, Católica Porto Business School

<sup>viii</sup> The Católica Porto Business School has been developing the strategic plans since the beginning of the 1990s

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## The Sexiest Industry in Europe (B)

### Preparing the *Footure*

*“In fact, there is no such thing as a low-tech industry. There are only low-tech companies—that is, companies that fail to use world-class technology and practices to enhance productivity and innovation. A vibrant cluster can help any company in any industry compete in the most sophisticated ways, using the most advanced, relevant skills and technologies.”*

Michael E. Porter in *Clusters and the New Economics of Competition*

When, in 1994, the high flying Harvard academic Michael E. Porter landed at Lisbon airport to offer his view on what Portugal's economy strategic focus should be, many guessed he would privilege trendier industries as the way forward<sup>i</sup>, thus, his proposal disappointed some. According to his analysis, Portugal should focus on six economic clusters<sup>ii</sup>, in which it was already traditionally strong. These clusters were: wine, tourism, auto-industry, footwear, textiles, and wood products. Some of these industries had been dismissed as low-skill industries based on low labor costs and were perceived as economic dead ends. Porter and others disagreed.

#### The Portuguese footwear cluster

The Footwear industry in Portugal is composed almost exclusively of small and medium sized companies with limited resources both in terms of human capital and financial capital. Most companies are family-owned and many are still managed by their founders, who have been working in the industry most of their lives. “The sector doesn't have many college graduates but it has accumulated formal knowledge. Businesspeople know a lot about commercial policy, about logistics; they know the markets, follow the currency exchange. They are tremendously competent. Talking to them is a lesson for life”<sup>iii</sup>, says Manuel Carlos, who since 1977 has been general manager of APICCAPS, the trade association under which the cluster organized itself after the 1974 coup d'état. A good instance is the current APICCAPS president<sup>iv</sup>, Mr. Fortunato Frederico who is the owner and CEO of one of the biggest factories in Portugal - Kyaia, holding one of the best known Portuguese brands and 8<sup>th</sup> biggest in the world - Fly London. Fortunato Frederico is a self-made man, an orphan who started his professional life sweeping floors in a

shoe factory when he was 14. His success owes nothing to inheritance: he started from scratch: “If he can do it, no one has an excuse not to”, says João Maia, APICCAPS’ Executive Director.

During the 1980s and 1990s, most companies grew by producing long-series for foreign brands. Since the turn of the century, sub-contracts still make more than half of the exports but the long-series have been replaced with shorter and much more frequent collections developed and delivered with a short-turn around and always on time. As a result, the sector has maintained a positive trade balance over the last 30 years.

But, in the beginning of the 21<sup>st</sup> century, as in much of the developed world, the manufacturing industries in Portugal suffered with competition from Asia, which managed to produce good products at extremely competitive prices. This shift was particularly difficult for the Portuguese manufacturing industry because, more than in other developed countries, its competitiveness was associated with low prices. The footwear industry had long been producing long series for large global brands, such as Ecco or Clarks. When, between 2000 and 2005, these mega brands decided to leave for cheaper locations, the Portuguese footwear industry appeared to have been left in a dire situation. If not for price, how could it compete? What other unique advantages did it have? How could it respond to the Asian threat?

### **Associated since 1975**

The APICCAPS (Portuguese Footwear, Components, Leather Goods Manufacturers’ Association) serves as an umbrella association for the footwear industry, footwear components industry, leather goods industry (bags, wallets, gloves, belts, etc.) and equipment for the above-mentioned sectors. The association itself is fairly small, currently employing only about 12 people but has done a competent job across all of the responsibilities it took upon itself. From its institutional brochure [Exhibit 1B] its areas of action include internationalization; studies, plans and consultancy; technical assistance; information; training; collective bargaining; technology, quality and the environment; innovation; patents; sustainable development. Its goal is the “sustainable development of the sectors and companies that it represents”<sup>v</sup>, with an emphasis on sustainable. As early as 1986, the strategic plan defended that the labor cost advantage could only withstand European competition and not a fully global one; that is, that advantage would be lost in an international market: “The Portuguese salaries were 35% of the UE average but they were 134% higher than in South Korea, and 40% higher than in Hong Kong or Singapore.”<sup>vi</sup>

Its management has remained practically unaltered in the past decades, giving a coherent vision to the industry. It has created and maintained close relationships with its members in this long period and this has helped it convey its message. Manuel Carlos Silva [see CV in Exhibit 3B] and Alfredo Jorge Teixeira, General Manager and Vice-General Manager respectively, have been at the helm of the trade association since the end of the 1970s. Structurally, the association runs very informally, which is possible only due to its small size. Bi-monthly meetings allow everyone, without exception, to express their vision and concerns. Everyone is fully responsible for his or her tasks and “money is not the most important thing,” João Maia notes, “it’s not necessarily the most senior member that makes the most important financial decisions, whoever has the responsibility is expected to make a decision, on everyone else’s support, obviously.” In a broad sense, one could say that the association leads by example. His most prominent public members are good role models, such as Fortunato Frederico, and the association itself has always acted in an exemplary business orientation.



In real terms, APICCAPS is a three-prong spear: the executive branch is responsible for the strategy development and communication, the Technological Center for the Portuguese Footwear (CTCP) is responsible for technological innovation and marketing, and the Professional School for the Footwear Industry (CFPIC) is responsible for providing technical education.

Through its long-term strategic plans for the industry [see Exhibit 2B for a timeline], designed in close collaboration first with the Banco Português do Atlântico Center of Studies and then with the Católica Porto Business School, APICCAPS has been able to give its members a clear view of the global competitive environment, consumer trends and strategic choices available for the industry. From very early on, this was clear to everyone: “the industry would not have been able to survive if it couldn’t compete in the global market”, says Prof. Alberto Castro. The plans have given companies a 5-year strategy specifying what the focus should be, from improving production methods enabling the industry to deal with shorter and more frequent requests from foreign brands, to internationalization and new market exploration, as well as the recent focus on branding and new product design. Moreover, APICCAPS, understood that data analysis and quantitative information is crucial for success. Accordingly, it issues yearly Statistical Studies condensing data regarding the Portuguese industry and World Footwear Yearbooks with information on each and every country involved in footwear production.

The Technological Center for the Portuguese Footwear (CTCP), via close collaborations with Universidade do Porto and INESC (a research institute), has given technological support to the industry. The CTCP, created within APICCAPS in 1986, now functions autonomously as its’ technological arm.

The Professional School for the Footwear Industry (CFPIC) is the third element of the three-prong spear. It exists since 1965 and provides practical technical education on the latest technologies to those entering the industry and also serves a continuing education center for more experienced workers, helping them learn new skills.

### **Preparing for China’s arrival**

The cluster anticipated and prepared China’s emergence from the early 1990s benefiting from a lucid leadership when it came to the use of the structural subsidies that were made available since Portugal joined the EU in 1986. There were four main areas of action: machinery and process modernization, innovation, external image and acquisition of internationalization expertise<sup>vii</sup>. This has resulted in a manufacture industry with a very high level of service supporting excellence in three pillars: quick responsiveness due to the geographic proximity with the main European markets in terms of turn around, collaboration with clients regarding design and logistics, and the ability to provide small order batches. Fortunato Frederico summarizes it saying that what makes Portuguese shoes be valued around the world is “quality, design and a service of excellence, namely in terms of quick response and small orders.”<sup>xi</sup>

When compared with other manufacturing industries, a much higher percentage<sup>viii</sup> of the funds were actually invested in innovation, changing the industry’s image abroad and in acquiring internationalization skills, as these were the skills in which the industry lacked competence.

### *Becoming Technologically Flexible*

Technologically, the Portuguese footwear industry was not too far behind its counterparts. Naturally, some funds were spent modernizing factory floors, especially in projects that targeted

process and helped companies move from long-series to shorter and more customized ones that could quickly be modified. Making companies more nimble was fundamental in the collaboration process, in creating strong partnerships with the global brands that were buying. A good example is the fast prototyping capability through which companies are able to collaborate with customers in terms of design, by creating different samples based on the clients' needs, and adapting them exactly to the preference of their clients before actually starting production. This can be done in a short time-span so that the orders may be delivered on time with customer satisfaction guaranteed. With time, more frequent and more profound design propositions were offered by the Portuguese producers themselves, allowing them to become trendsetters.

In parallel, funds were spent developing skills to produce low-cost footwear manufacture machinery. Portuguese companies became suppliers of footwear manufacture machinery for a fraction of the cost. This was essential to the development of the cluster, as it allowed everyone to have access to high-tech technology. Good examples are water jets leather-cutting machines. These were once the privilege of an elite, but became widespread among Portuguese top companies.

#### *Changing Perceptions Abroad*

One of the biggest issues the industry had to face as a whole was Portugal's and Portuguese products' negative image abroad. Changing this was a long process, requiring APICCAPS' leadership, commitment, and persistence. With every technological innovation, buyers were invited to see in-loco what was now possible. This showed many how sophisticated some of the factories really were and made them more likely to try Portuguese products. Several worldwide branding campaigns, as well as, a smart endorsement of celebrities as brand ambassadors, continuously changed the way the Portuguese shoes were looked upon not only by brands but by final consumers themselves, to the point where today many choose "made in Portugal" shoes.

#### *Finding Customers Abroad and Bringing Them to Portugal*

APICCAPS spent years bringing companies to international trade shows, making connections and establishing relationships that have become almost partnerships. Little by little, "flocks of timid businessmen embarrassed by their origins, and afraid to mention their home country, became proud flag bearers of slogans such as Shoes from Portugal or Portuguese Shoes, Designed by the Future."<sup>ix</sup>

#### **Manuel Carlos, the proponent of a positive approach**

Manuel Carlos started with and continues to have a positive discourse, always looking forward. His message has always been disarming and encouraging for the people in the industry. In one of his rare public speeches, during the presentation of the most recent strategic plan *Footure 2014-2020*, he reiterated that "there shouldn't be a limit on our dreams and ambitions", but he also said that rather than being obsessed about becoming the leader, the industry "should walk the road that will take it in that direction". And the biggest challenge according to him is clear, "we need to attract our youngsters and orient them so that they may come up with an aesthetic language that will add value to the production of this sector. That's the way to continue increasing prices".<sup>x</sup>

"Being positive may have started as Manuel Carlos' personal attitude but it is now fully engrained in the APICCAPS culture", claims João Maia. "Showing success stories to companies

so that they may see how to replicate and achieve similar success is much more effective than highlighting what each company is doing wrong.” If, at first, the goal was to help the leading companies improve and become more sophisticated, “now, APICCAPS appears as a giver of good news, this is not just because we like to give good news but because this consolidates the industry’s image among our clients abroad and also members within, and this is much more important than saying that this or that needs to change and improve.”<sup>ix</sup>

Even during the negative growth years from 2001 to 2005, APICCAPS never pointed fingers. As Fortunato Frederico puts it, “we absolutely reject being defined as a successful industry, in the same as we also reject in the bad moments expressions such as *being in crisis*.”<sup>xi</sup> In fact, the decline of the beginning of the 2000s stopped in 2005, growth resumed and currently, the industry is already exporting more than it did in 2001.

This approach is not unanimous within the industry and some industrials reproach APICCAPS for having a message that is too optimistic. Fortunato Frederico replies to those critics saying, “the association needs to highlight the virtues of the sector and its good results, the best practices, and to give solutions for the future. We can’t have it any other way [...] but that doesn’t mean we don’t defend our members till the last drop. We are in constant contact with the government and other public organisms in order to refine our strategy [...], we always believed that we must hold our discussions where appropriate and not through the newspapers or the television.”<sup>xii</sup>

### **Open days: the cluster visits the factories**

Perhaps the most striking difference between the footwear industry and other manufacturing industries in Portugal has been how it handled competition, both outside and within the Footwear cluster. While other trade associations were lobbying the government for subsidies that would reduce the pain of the losses to the Asian market, the footwear industry pushed for help that would allow it to compete on an open field, improving what needed to be improved without postponing hard decisions.

Both the open field approach, in which the industry chose to work, and the strategy that gave its members the tools they needed to compete globally were essential for the innovation that was at the base of the successes. This has allowed the cluster to develop a healthy ecosystem of companies with different sizes and competences that “compete fiercely in terms of product design and the marketing of their products, but also collaborate in terms of industrial organization and management”, states João Maia. A good example is the project *acções de demonstração* (Showcase Actions), which ran in the 1990s with the goal of spreading the benefits of government-funded projects in specific companies to all within the cluster. When a given company benefited from a new technology emerging from a sponsored project it gave back to the community by hosting open days. Those open days helped all other companies learn by seeing what could be done to production, how much money could be saved or what new products could be created using that new technology or production technique. Thus, companies that became proficient in a particular skill also became competence leaders. According to João Maia, this was only possible because “each project always had a company at the helm, running it and applying it. Other sectors have had projects run by the associations or universities, but by doing it this way, we were able to create practical and immediately applicable solutions”. When the projects were too big to be managed by a single company, they were co-managed by a group of companies, consequently allowing many to test the potential benefits of new technology at a

much-reduced risk. This allowed innovations to be tested and improved before being shared, so other companies could replicate the model.

“Out of the 1350 member companies only about 200 have more than 50 employees and have the marketing ability to get customer trends and explore new markets.”<sup>ix</sup> The other 1,100 do not export directly; instead, the leading companies subcontract them. These smaller firms are essential because they add flexibility and capacity to the industry as a whole. The existence of sophisticated companies is also important. “For some time, the role of APICCAPS was to work directly with companies so they would improve, that’s no longer the case. Right now APICCAPS’ most important role is to communicate what the leaders are doing right.”<sup>ix</sup>

### The Sexiest Industry in Europe

In 2011, APICCAPS launched the campaign “The Sexiest Industry in Europe” [see photos in Exhibit 10B], which summed up what the ambition for the industry really was. In fact, a number of very well known brands for its sexiness, such as Armani, Boss, Camel, Chanel or Dior, do develop and produce some of their shoes in Portugal. This was the campaign that sent the Portuguese cluster in a worldwide tour. The campaign had four main goals which continue to be emphasized today: “consolidate the Portuguese shoe industry's relative position in overseas markets, diversify export destinations, approach new markets and make it possible for new companies to start the process of internationalization”.<sup>xiii</sup>

The campaign ended up winning the 2013 European Prize for Business Development given by the European Commission and was widely viewed as the result of an essential shift towards the establishment of a design language allowing to attract future customers that look for Portuguese shoes not only because of their quality but also because of their unique design.

Porter’s report confirmed what a focused trade association and a group of resilient businesspeople already knew: the Portuguese footwear industry does have a future and that future can be bright. He knew that any industry could be a sophisticated industry, what he possibly didn’t know was that it could turn out to be the sexiest.

### What *Footure*?

In 2014, Italian shoes were the only shoes in the world with a higher average price out of the factory than that of Portuguese shoes [see Exhibit 4B]. One could say the goal of producing the best shoes in the world is close at hand. Instead, APICCAPS is saying the opposite: that competition will only get more dangerous.

With more than 1,300 companies, employing more than 35,000 people, exporting 90% of what it produces to 132 countries and generating revenues of close to €1.8 billion, footwear is the most internationalized sector in the Portuguese economy.<sup>xiv</sup> How then is it possible to keep everyone moving and pushing to get more? For now, with the stagnation of European sales, and given that Europe represents 91% of the Portuguese footwear exports<sup>xv</sup>, APICCAPS keeps the focus on getting to new markets, such as China, the United States, and Latin America. But geographic expansion alone won’t be enough when the consumption trends are not favorable to leather footwear, which is the main output of the Portuguese industry making up for 88% of production.<sup>xiv</sup>

According to João Maia, “the future challenge is to continue to find segments with higher prices, where the high margins are. This has to be done by continuously incorporating design, consolidating the European market, and exploring new markets.” But questions arise: Is the cluster prepared? Can it take innovation to the next level? Can companies continue to adapt in order to respond to the next challenges when some of Eastern Europe and North Africa produce increasingly better shoes at competitive prices? Will the Portuguese companies succeed in pushing their own brands and compete globally without controlling the distribution channels?

Exhibit 1B: Brochure, in [www.apiccaps.pt](http://www.apiccaps.pt)

**TECHNOLOGY, QUALITY, ENVIRONMENT AND PATENTS**  
APICCAPS, via the CTCP, provides consultancy services to its associates, and carries out applied research in the areas of: **technology and industrial management; patents; innovation; quality; metrology and environment.**

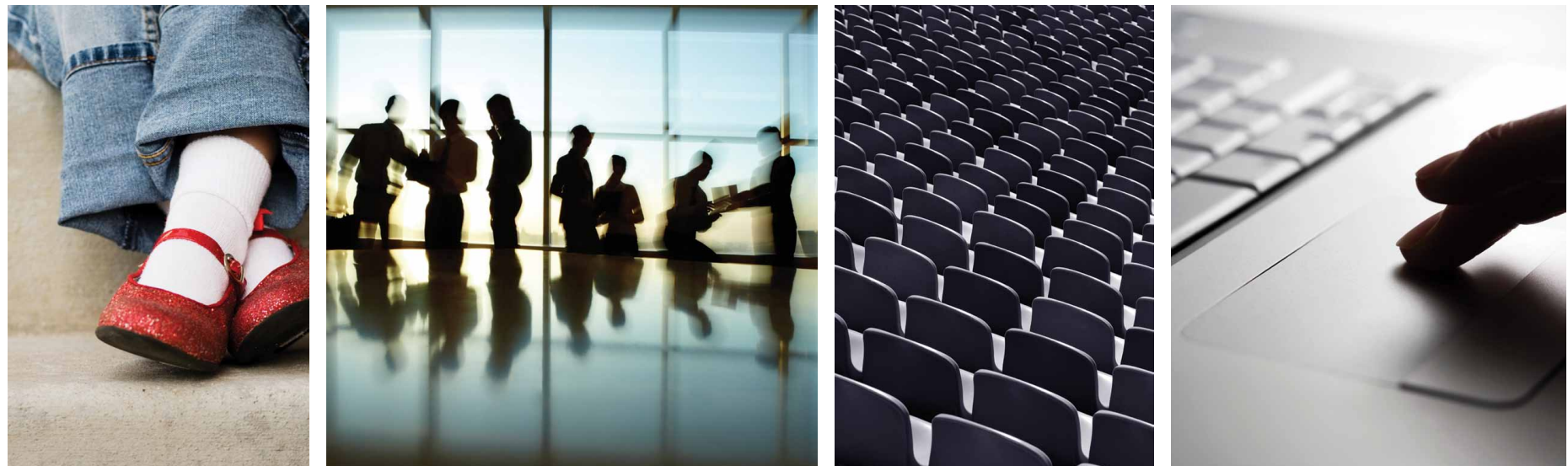
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4050 - 042 PORTO  
PORTUGAL  
tel.: +351 225 074 150  
fax: +351 225 074 179  
GPS coordinates: 41°08'38.61"N  
8°36'56.43"W  
[apiccaps@mail.telepac.pt](mailto:apiccaps@mail.telepac.pt)  
[www.apiccaps.pt](http://www.apiccaps.pt)  
[www.portugueseshoes.pt](http://www.portugueseshoes.pt)



APICCAPS – The Association of Portuguese Manufacturers of Footwear, Components, Leather Goods and Associated Articles is a national, business association based in Porto. Founded in 1975, it represents the following sectors of activity: **manufacture and sales of footwear; the footwear components industry; the leather goods industry (bags, handbags, gloves, belts, etc.) and production and sale of equipment for the above-mentioned sectors.**

The aim of APICCAPS is to promote the sustainable development of those sectors and companies that it represents.

Main areas of intervention:  
**Internationalization; Studies, Plans and Consultancy; Technical assistance; Information; Training; Collective Bargaining; Technology, Quality and the Environment; Innovation; Patents; Sustainable Development.**



**INTERNATIONALIZATION**  
APICCAPS is highly active in supporting and promoting the growing internationalization of Portuguese companies. Working in close cooperation with the AICEP, as well as being supported by public entities, APICCAPS promotes a Portuguese presence in approximately 80 foreign trade fairs per year; APICCAPS regularly organizes trade-seeking business missions; APICCAPS organizes promotional campaigns for Portuguese footwear in foreign markets.

**INNOVATION**  
APICCAPS promotes and incentivates a policy of permanent innovation, a decisive instrument for the strengthening of the competitive ability of its companies, by means of the development of projects in partnership with: CTCP; companies; companies producing raw-materials and high technology; entities from the areas of science and technology; universities.

**STUDIES**  
APICCAPS prepares sectorial studies in the areas of: research; strategy; statistics; market analysis. APICCAPS develops studies, at the CTCP (The Portuguese Centre for Footwear Technology), on: diagnostics and auditing of general management as well as in the areas of technology and the environment; financial and economic viability of planned investments; technical and technological applied research; environmental impact, adaptation and efficiency.

**TECHNICAL ASSISTANCE**  
APICCAPS offers its members services in a number of different areas, which include: complimentary legal assistance in labour disputes; information on labour, commercial and tax law; licensing for industry; incentives relating to investment, employment, tax, etc.; the environment; health, hygiene and safety at work; access to national and international databases; information on bidding for state contracts; information on commercial disputes; subcontracting/ commercial opportunities.

**INFORMATION**  
APICCAPS produces the following publications: the APICCAPS newspaper (monthly); quarterly market bulletins; circulars; statistical reports; electronic newsletters.

**TRAINING**  
A APICCAPS promotes a variety of training courses developed by:  
- The **CFPIC**, which runs professional training programmes aimed at: young people who have passed year 9; young people who have passed year 12; adults; workers in the area of manufacture of footwear and components. The CFPIC also develops modular training programmes that can be taken after work, as well as made-to-measure training programmes for companies.

- The **CTCP**, which promotes and runs courses in training and professional qualification both within and between companies in the following areas: time and motion; organization and industrial management; new production technologies / new materials; quality management and control; environment and social responsibility; languages; leadership, teamwork, time management, dealing with the public (personal development); employment legislation; sales and marketing.

**COLLECTIVE BARGAINING**  
APICCAPS ensures that all areas of the footwear industry are represented during negotiations with the trades unions for collective agreements relating to contracts of employment, and seeks to create conditions that will allow companies to develop in a competitive manner, as well as the improvement of the socio-economic conditions of employees.

**SUSTAINABLE DEVELOPMENT**  
Social Responsibility has become increasingly important in the world of footwear manufacture. APICCAPS, which was the first business association to become certified in accordance with norm SA 8000, aims to promote sustainable development along these lines. The aims of sustainable development are to ally competitiveness to social responsibility and to quality of life, enhancing progress of the Portuguese footwear industry into the 21st century.

**Exhibit 2B: Timeline**

- 1960.** Portugal joins EFTA as a founding member
- 1970.** UK files for EEC membership
- 1972.** Portugal signs a bi-lateral agreement with EEC
- 1974.** Democratic revolution ends the dictatorship period.
- 1975.** Establishment of APICCAPS
- 1978.** APICCAPS publishes its first “Strategic plan for the industry” directed by Miguel Cadilhe from BPA studies center.
- 1983.** APICCAPS publishes its second “Strategic plan for the industry” directed by Carlos Costa from BPA studies center.
- 1986.** Portugal joins the EEC.
- 1987.** APICCAPS publishes its third “Strategic plan for the industry 1988-1994”
- 1992.** Analysis on Portugal’s Economic Competitiveness is commissioned to Michael E. Porter.
- 1994.** APICCAPS publishes the “Strategic plan for the industry 1995-1999” + Porter Report is published.
- 1995.** APICCAPS introduces tagline: Shoes from Portugal.
- 1999.** APICCAPS publishes the “Strategic plan for the industry 2000-2006”
- 2004.** The last MOCAP (trade fair in Portugal) takes place.
- 2006.** APICCAPS publishes the “Strategic plan for the industry 2007-2013”
- 2007.** APICCAPS introduces tagline: “Shoes from the future” + APICCAPS publishes Statistical Report.
- 2011.** APICCAPS introduces tagline: “The Sexiest Industry in Europe” + APICCAPS publishes *World Footwear Yearbook*.
- 2012.** APICCAPS publishes *World Footwear Yearbook*.
- 2013.** APICCAPS publishes Statistical Report
- 2014.** APICCAPS publishes the Strategic plan for the industry, “Footure 2014-2020”

**Exhibit 3B:** Manuel Carlos Silva's CV



- APICCAPS' general manager
- ICEP's former president
- IAPMEI's former president
- Head of the board of the Footwear Technological Center's since 1997
- Member of the executive committee of the European Confederation of the Footwear Industry (CEC)
- Head of mission of the Dinamo Program for the development of fashion in textiles and footwear
- Degree in economics by *Faculdade de Economia da Universidade do Porto*



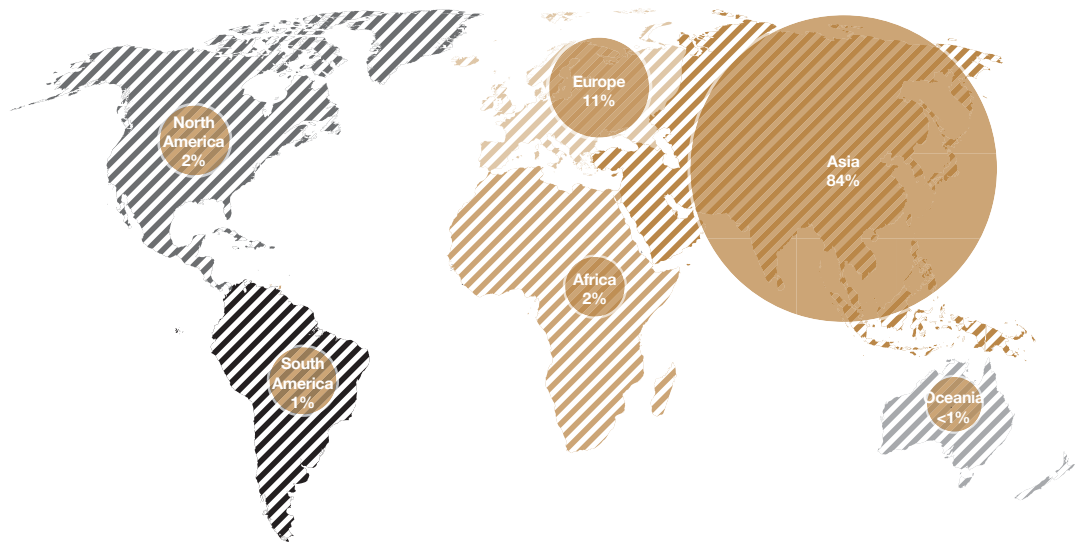
**Exhibit 4B:** World Top 15 Exporters in 2011 (Value), in *APICCAPS' World Footwear Industry Yearbook 2012*

Rank	Country	USD (millions)	World Share	Average Price
1	China	39 374	38.3%	\$3.87
2	Italy	10 376	10.1%	\$45.32
3	Hong Kong	5 317	5.2%	\$14.70
4	Vietnam	5 123	5.0%	\$16.20
5	Germany	4 392	4.3%	\$22.66
6	Belgium	4 172	4.1%	\$20.16
7	Indonesia	3 227	3.1%	\$15.65
8	Netherlands	2 933	2.9%	\$20.55
9	Spain	2 870	2.8%	\$22.04
10	France	2 409	2.3%	\$30.18
11	Portugal	2 091	2.0%	\$32.00
12	India	1 421	1.4%	\$12.61
13	United Kingdom	1 400	1.4%	\$15.90
14	Romania	1 391	1.4%	\$24.35
15	Brazil	1 296	1.3%	\$11.47

**Exhibit 5B:** Portuguese Footwear Industry Trends, in *APICCAPS' 2013 Statistical Study*

	1974	1984	1994	2004	2006	2008	2009	2010	2011	2012**
<b>Industry   Indústria</b>										
<b>Companies   Empresas</b>										
number   número	673	971	1 635	1 432	1 448	1 407	1 346	1 245	1 324	1 354
<b>Employment   Emprego</b>										
number   número	15 299	30 850	59 099	40 255	36 221	35 398	32 510	32 132	34 509	35 355
<b>Production   Produção*</b>										
thousand pairs   milhares de pares	15 000	48 000	108 866	84 897	71 643	69 101	67 044	62 012	69 491	74 156
<b>Gross Production Value   Valor bruto de produção*</b>										
thousand Euros   milhares de Euros	12 330	318 891	1 620 001	1 471 214	1 338 555	1 397 617	1 414 614	1 283 475	1 511 085	1 797 030
<b>Foreign Trade   Comércio Externo</b>										
<b>Exports   Exportações</b>										
thousand pairs   milhares de pares	5 200	31 100	89 368	75 159	63 784	64 651	63 346	68 671	78 226	70 974
thousand Euros   milhares de Euros	3 093	164 060	1 283 867	1 273 252	1 166 116	1 290 991	1 232 027	1 296 919	1 541 626	1 608 479
<b>Imports   Importações</b>										
thousand pairs   milhares de pares	2 800	200	15 005	33 154	41 209	50 900	54 418	65 647	63 535	48 605
thousand Euros   milhares de Euros	324	738	97 087	271 126	318 277	431 662	401 157	425 270	467 035	415 062
<b>Trade Balance   Balança Comercial</b>										
thousand pairs   milhares de pares	2 400	30 900	74 362	42 005	22 575	13 751	8 927	3 023	14 691	22 369
thousand Euros   milhares de Euros	2 769	163 321	1 186 781	1 002 126	847 838	859 329	830 870	871 650	1 074 592	1 193 417

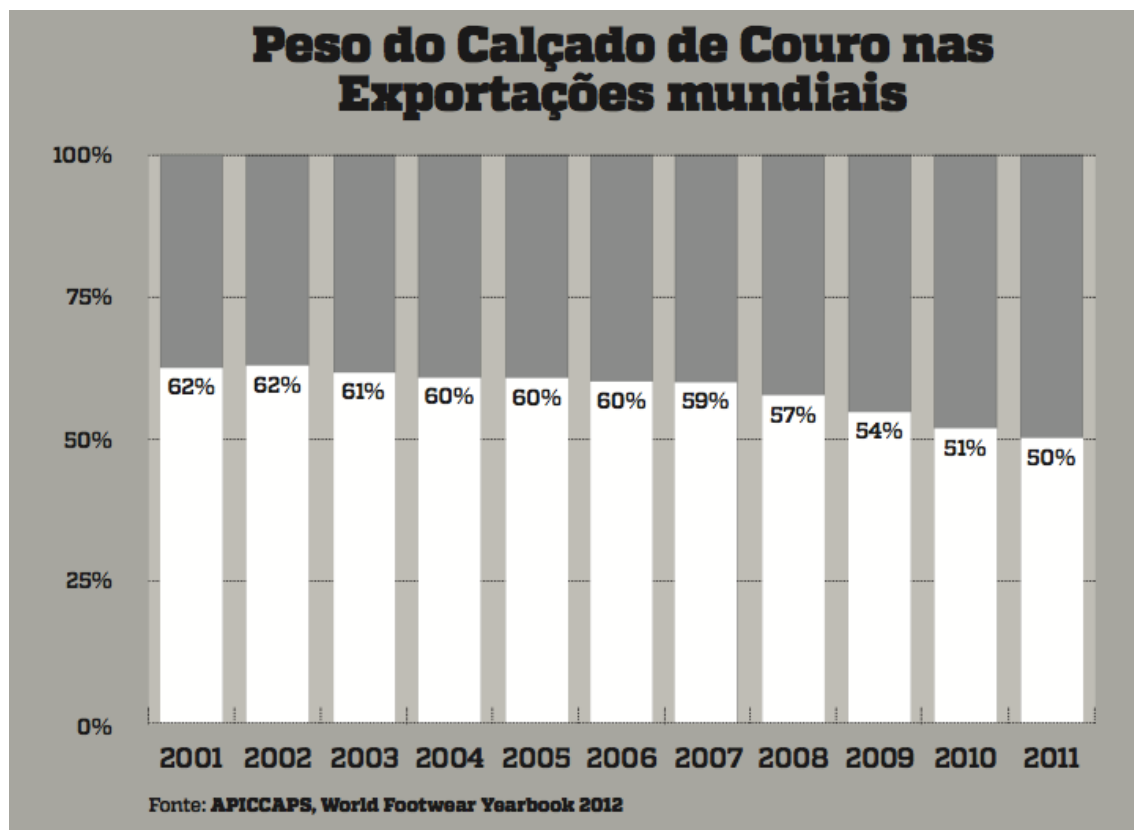
**Exhibit 6B:** Distribution of Footwear Exports by Continent of Origin 2011 (Quantity), in *APICCAPS' World Footwear Industry Yearbook 2012*



**Exhibit 7B:** World Top Leather Footwear Importers 2011, in *APICCAPS' World Footwear Industry Yearbook 2012*

Value: Million USD   Valor: Milhões de Dólares	Imports	Share in Country Imports
	Importações	Quota nas Importações do País
USA   EUA	12 220	0,52%
Germany   Alemanha	4 185	0,36%
France   França	3 550	0,54%
Hong Kong   Hong Kong	3 240	0,59%
Italy   Itália	3 105	0,64%
United Kingdom   Reino Unido	3 057	0,44%
Russian Federation   Federação Russa	2 086	0,66%
Netherlands   Holanda	2 056	0,41%
Belgium   Bélgica	1 688	0,39%
Japan   Japão	1 469	0,17%

**Exhibit 8B:** Leather footwear weight in World Exports, in *APICCAPS' World Footwear Industry Yearbook 2012*.



**Exhibit 9B:** GDP growth until 2015, in *FMI, World Economic Outlook*

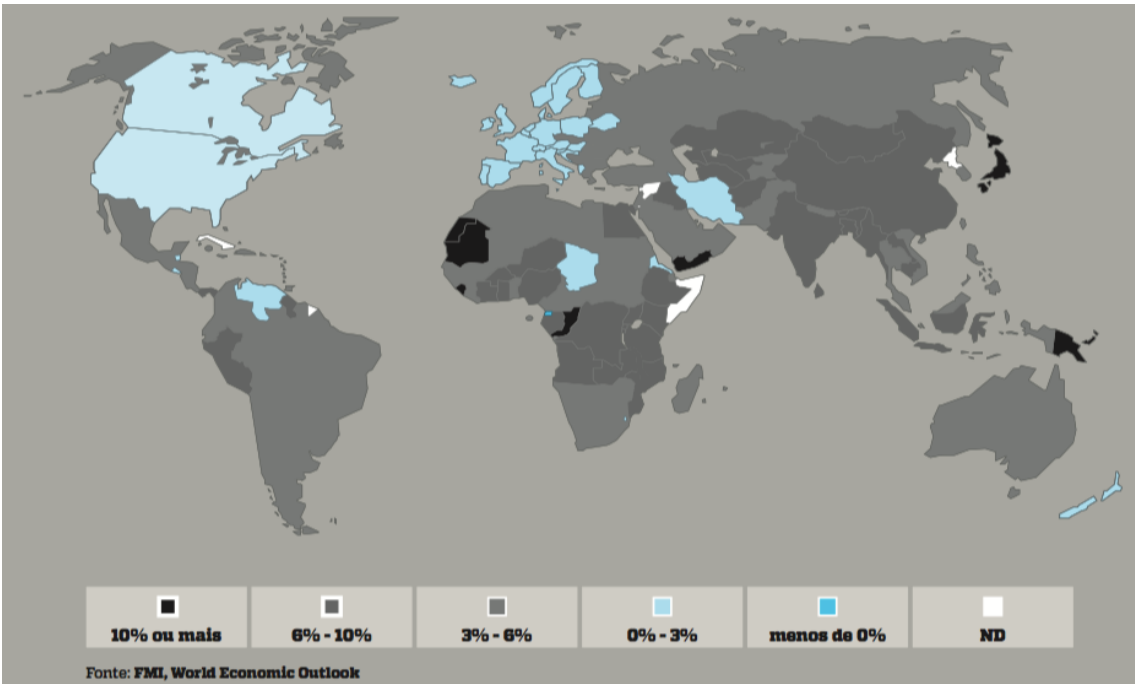


Exhibit 10B: Photos from "The Sexiest Industry in Europe" campaign



**Exhibit 11B:** Useful Links

APICCAPS: <http://www.apiccaps.pt>

Centro Tecnológico do Calçado Português: <http://www.ctcp.pt/index.asp>

Centro de Formação Profissional da Indústria do Calçado: <http://www.cfpic.pt/>



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<sup>i</sup> In 1992, the Portuguese government, along with a group of private companies, commissioned Michael E. Porter a report on how to make the Portuguese economy more efficient.

<sup>ii</sup> Porter also identified 7 core clusters which Portugal needed to develop to support the economy as a whole: education, financing, forestry management, management capabilities, science and technology.

<sup>iii</sup> From an interview of Dr. Manuel Carlos Silva to the newspaper *Público* (Oct. 20, 2013)

<sup>iv</sup> Presidents are elected each 3 years and hold a non executive role

<sup>v</sup> From APICCAPS institucional brochure.

<sup>vi</sup> From 1983 APICCAPS strategic plan by Prof. Carlos Costa

<sup>vii</sup> APICCAPS Strategic Plan

<sup>viii</sup> From PEDIP/PRIME Evaluation Reports.

<sup>ix</sup> From interview with João Maia, APICCAP's Executive Director

<sup>x</sup> DinheiroVivo.pt, interview with Manuel Carlos Silva at the presentation of the strategic plan Footure 2014-2020

<sup>xi</sup> Saldo Positivo/CGD.pt, October 2013, interview with Fortunato Frederico

<sup>xii</sup> APICCAPS Journal N. 168, interview with Fortunato Frederico

<sup>xiii</sup> APICCAPS press release.

<sup>xiv</sup> 2013 Statistical Study, APICCAPS.

<sup>xv</sup> Footure 2020, APICCAPS Strategic Plan, 2013

PEDRO SENA-DIAS  
MIGUEL PINA E CUNHA

## **The Sexiest Industry in Europe (A and B)**

### **Teaching Note**

#### **Case Synopsis**

The Portuguese footwear industry is now among the biggest exporters of high-end leather footwear in the world. Over the past 50 years, it managed to evolve from a small industry focused on the Portuguese internal market into a high-tech industry capable of designing and producing some of the best and most expensive shoes in the world.

The industry has taken advantage of the opening of global trade barriers to internationalize itself. At first, the internationalization process occurred via the establishment of foreign owned factories in Portugal or joint ventures with Portuguese factories that produced long series at low prices from cheap labor. Then, when the industry lost its main competitive advantage to Asia, it was able to reinvent itself by creating a vibrant cluster of companies capable of addressing the new needs of its high-end customers via an innovative approach to production, high quality products, excellent customer service, and fast response.

APICCAPS, the trade association created in 1975, has been a constant presence and a clear industry leader pointing its members in the right direction, creating collective awareness of the opportunities and the dangers that lie ahead, enough time in advance, so they can prepare and find the tools they need to change, evolve and compete with the best.

#### **Part A**

Part A gives the reader a succinct historical overview of the environment the industry was operating in from a macro point of view. The overview starts with Portugal joining the EFTA in 1960, as a founding member. This opened up an economy that had been fairly closed for 30 years, and allowed the Portuguese industry to start producing and exporting labor-intensive products to much more economically developed economies, such as, the UK and the Scandinavian countries. Some important chapters in this history occurred in 1986, when Portugal joined the European Union after some first bi-lateral agreements with the EEC in 1973, and later, around 2001, when China joined the WTO.

**Part B**

Part B focuses on how the leadership of the trade association, APICCAPS - Portuguese Footwear, Components, Leather Goods Manufacturers' Association, was able to act as a rationality center since its creation in 1975, offering its members a clear understanding of the global markets around them and the possible strategic options. APICCAPS helped the industrials implement the necessary changes to their production machinery and processes, create innovation centers, explore new markets, and change their image as a whole.

**Teaching Objectives**

The main objective of the case is to explore the crucial role of leadership of a trade association in successfully guiding a cluster through major shifts of the competitive environment. It shows how, by following a coherent path based on sound strategic analysis, this association was able to lead a small western European manufacturing industry over the last 35 years, turning it into one of the leaders of leather footwear worldwide.

More specifically, there are teaching objectives in two main areas: organizational behavior and strategy. These objectives can be achieved independently, according to the course area.

**Organizational Behavior**

This case allows the students to explore the role of the leader of a trade association.

*Positive Leadership.* This case presents an opportunity for students to discuss the benefits of positive leadership. APICCAPS' leadership, due to the particularities of the relationship it has with its members, is an example of how cluster leaders can provide the necessary guidance by offering data and a vision to members, and by gathering the resources they need to fulfill their strategic goals.

*Company Culture.* According to João Maia, the current executive director of APICCAPS, the association' leadership style owes much to the personality of Manuel Carlos who has been the association's general manager for the past 35 years. This style has now become "the cultural DNA" of the association. It puts the spotlight on companies that are successfully fulfilling their goals, instead of highlighting the association's role in that success, dwelling on why a particular project failed or demanding things to be done differently.

*Management Style.* This off-the-spotlight attitude may have played a strong part in Manuel Carlos' unusual long tenure as General Manager. The association also provides an excellent example of the benefits of a long-term, coherent management. APICCAPS' authority is tacit; much of its leadership comes from followers' trust in the leader, and members' sense of belonging.

*Change.* The industry has been able to successfully adapt to drastic changes more than once, but the process might itself not be sustainable in the long run, particularly after the current management leaves. Understanding if that's the case and what can be done to prevent it is in itself a question worth debating and a theme to explore.

Moreover, parallels with company managers can be made, and a discussion around what in the case could be useful to motivate, to delegate and to give a long strategic vision to employees can be a fruitful one.

**Strategy**

The strategic response of the cluster first to the opportunities that the free trade zones created and then to the threats that the Asian competitors posed permits a better understanding of the cluster dynamics and, at the same time, of the strategic alternatives a manufacture industry in a developed country has when dealing with globalization.

*Understanding Cluster Dynamics.* This case allows students to explore and understand cluster dynamics and its role in the overall competitiveness of individual companies. The examination of the competitiveness versus collaboration issue will illustrate the reasons why strong clusters are essential to economic development.

*Sector Association Role.* By following the most important points of the industry since the 1960s, students will be able to elaborate on sector associations' role. This objective can also be exported to leadership situations in which the leader has little or no authority over the participants in a given project, which can be used to open up discussion about vision, resources, communication, and overall leadership style.

*Historic overview of the Portuguese industry over the past 50 years.* Last but not least the case serves to discuss how the manufacturing industry evolved in Portugal over the past 50 years. Many of the opportunities and issues were similar across industries, and the case will allow the audience to quickly learn some basic dimensions of the Portuguese economy in the recent past.

**Recommended Questions****Organizational behavior approach**

1. What role should trade associations have as sector leaders?
2. Why did Manuel Carlos choose a positive leadership management style? And, what effects did it have in its membership base?
3. Should the experience be transferable to other sector associations? How can it be transferred to companies?

**Strategy approach**

1. What role should trade associations have as strategy makers?
2. What were APICCAPS's key initiatives in making the industry successful?
3. Has the strategy chosen to fight Asian competitors been successful? Was that the case in 2005?
4. Is the experience transferable to other industries or companies? Why?
5. What is the way forward? Is the industry ready for the continued innovation phase?

**Literature Review – Organizational Behavior****Positive Organizational Behavior**

Positive Organizational Behavior (POB) is defined as “the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace.”<sup>i</sup>

Luthans noted that “the OB field needs a proactive, positive approach, emphasizing strengths, rather than continuing in the downward spiral of negativity, trying to fix weaknesses”<sup>ii</sup>

As a field of study, POB is relatively new as it derives from positive psychology, initiated in 1998 by Martin Seligman and Mihaly Csikszentmihalyi. They defended that “a psychology of positive human functioning will arise, which achieves a scientific understanding and effective interventions to build thriving individuals, families, and communities.”<sup>iii</sup>

This new focus will hopefully incentivize the continuation of the good behavior and its replication by other individuals. Thus, it relies on the individuals, as it is up to them to either follow the highlighted example or not. That’s what took place in the footwear cluster, with the companies responding to the *can do*, optimistic attitude of the leadership and the positive examples given by the leading companies. Certainly, there were errors and companies closed. Those cases were known to all within the cluster due to the proximity and personal relations that business owners had with one another but those cases, essential for learning, were not advertised by APICCAPS. Thus, the positive approach never reached a point in which companies stopped learning from the mistakes.

There isn’t much POB research done in an association setting, but the similarities of APICCAPS’ approach with this theory are striking and one cannot help but wonder how the example can be replicated, serving to illustrate the theory, and how theory can be enriched by it.

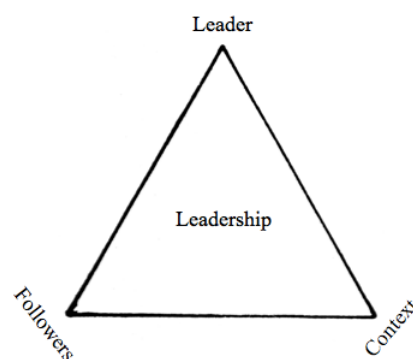
### Psychological Capital (PSYCAP)

According to Luthans, PSYCAP is a combination of four components: hope, self-efficacy, resilience, and optimism.

By making all the data, resources and strategic vision available for the industry, and by helping to create an open field competition with a collaborative mind-set regarding production techniques and production-related innovation, such as the many open-day projects in which the company leading a project sponsored by APICCAPS would show the details and share the results with all others, APICCAPS has created a context in which the cluster members can become *positive* practitioners. This context helped increase the PSYCAP of the company leaders and decision makers, and thus, according to the model, improved their behavior as managers.

### Leadership

According to Barbara Kellerman, the leadership industry is obsessed with the leader and is missing a big part of the picture. In fact, the leadership process can be schemed as an equilateral triangle, in which all three intervenient have equal weight, and equally influence the outcome.



**Exhibit 1TN:** Kellerman’s Leadership Triangle

If we had to pick a leader for the footwear industry in the past 40 years, that leader would be Manuel Carlos Silva. But the way he behaves as general manager of APICCAPS is not what one would traditionally come to expect from a leader.

Manuel Carlos Silva, along with the APICCAPS management, influenced the existing context so that followers would act in their best interest to fulfill his strategic vision. APICCAPS' role as leader was indeed crucial, but it was only possible because the company owners and APICCAPS members supported it even if it had no direct authority over them.

The context changed often, as when the markets opened or when China entered the WTO, and the direction that APICCAPS had delineated changed accordingly. It was the members' trust in the leader, rather than authority or favor, that made footwear industrials listen and follow the association's guidance and ultimately succeed in many different contexts.

### Literature Review – Cluster Strategy

#### Clusters

Globalization and the breaking of geographic barriers seemed to make clusters less relevant. In fact, this has not been the case. Reality shows that one is more likely to find innovative movie technology in California, successful high-tech businesses in Silicon Valley or high-end home design products in northern Italy.

"Clusters are geographic concentrations of interconnected companies and institutions in a particular field", defined Porter<sup>iv</sup>. He noted that the paradox in today's world is that "the enduring competitive advantages in a global economy increasingly lie in local dimensions – knowledge, relationships, motivation—that distant rivals cannot match". Why is that so? According to Porter, "what happens inside companies is important, but clusters reveal that the immediate business environment outside companies plays a vital role as well", bringing three direct consequences: "increasing the productivity of companies based in the area; driving the direction and pace of innovation, which underpins future productivity growth and stimulating the formation of new businesses, which expands and strengthens the cluster itself."<sup>iv</sup> The clusters' vitality is particularly important in terms of productivity and innovation:

*Productivity.* Regarding productivity, which is essential to competitiveness, gains can be due to better access to employees and suppliers, better access to information, complementarities of many sorts, access to government of private institutions, and to the rivalries that will rise within the cluster that will make companies compete to outperform one another.<sup>iv</sup>

*Innovation.* Clusters promote innovation by allowing different entities within the cluster (such as suppliers and buyers) to learn about progressing technology, increasing flexibility by outsourcing what it needs to test and implement new technologies.<sup>iv</sup> This will allow experimentation and cost saving until a company is assured that that particular innovation will be well received and will work as expected. It is the competitive pressure enhanced by the cluster, or as APICCAPS' executive director João Maia puts it, jealousy from the company just across the street, that will make the cluster members continually push for new competitive advantages.

#### The Role Of A Trade Association

Trade association's main focus often consists in lobbying government to get subsidies or other barriers that protect the industry against open field competition. According to Porter, they are missing an important opportunity:

“Trade associations can provide a forum for the exchange of ideas and a focal point for collective action in overcoming obstacles to productivity and growth. Associations can take the lead in such activities as establishing university-based testing facilities and training or research programs; collecting cluster-related information; offering forums on common managerial problems; investigating solutions to environmental issues; organizing trade fairs and delegations; and managing purchasing consortia.”<sup>iv</sup>

APICCAPS focused on representing the cluster in trying to solve its competitive needs so it could compete with companies abroad. It did not focus on lobbying the national government, which in all truth, would not have been able to do much to shield the industry from the Asian competitors. Instead, the association was able to get governmental support, in the form of incentives but also in the form of innovation support (via the Technological Center and collaboration with research centers at Universidade do Porto) and via the qualification of the work force (through the Professional Training Center).

### National Competitiveness

In 1960, W. W. Rostow proposed five stages for economic growth<sup>v</sup>:

1. *The traditional society*: subsistence agriculture, hunting and gathering and very limited technology.
2. *The preconditions for takeoff*: external demand for natural resources initiates change; commercial agriculture of which a large part is exported; advances in existing technology; social strategy evolves with some social mobility.
3. *The takeoff*: urbanization and industrialization; secondary sector of goods produced grows and shift from primary sector becomes more pronounced.
4. *The drive to maturity*: industrial diversification; development of infrastructure and transports;
5. *The age of high mass-consumption*: industrial segment dominates the economy; consumption of high-value consumer goods is widespread; population has disposable income for non-basic consumption.

Stage jumps are, according to Rostow, based on the factor conditions that the given country is endowed with such as natural resources or a large labor force. But the engine behind the acquisition of new factors has not been identified.

In 1990, Michael E. Porter counter-pointed, noting that each country could create its own factor conditions, such as, a skilled workforce, new knowledge and technologies, or cultural developments. Porter used a diamond shaped scheme to illustrate the determinants of national advantage<sup>vi</sup>.

Moreover, in 2002, Porter proposed an alternate approach to the country development stage identifying three development stages:

1. *Factor driven stage*: where countries compete in low-cost production and in low added value products.
2. *Efficiency driven stage*: where countries need to have efficient production techniques in big markets, which allow for economies of scale.
3. *Innovation driven stage*: where countries need knowledge intensive achievements to continue developing, and where entrepreneurial innovation becomes significant.

Despite being in the lower end of developed nations, Portugal is at the innovation stage<sup>vii</sup>. At this stage, innovation drivers and business' sophistication become key for sustained development [Exhibit 3 TN].

### **Porter report on Portugal's economy**

In 1992, the Portuguese government commissioned Michael E. Porter an analysis on the Portuguese economic situation at the time and the strategic options for the future. The analysis was concluded in 1994. The 1994 conclusions and an update in 2002 can be seen in Exhibit 4.

Regarding the footwear cluster, Porter suggested 5-action points<sup>viii</sup>, which were already part of APICCAPS strategic plans or were included in the future ones:

- Improve quick response processes
- Improve productivity and marketing
- Improve suppliers relations
- Develop footwear design via a design center
- Associate companies and suppliers

### **Case Analysis – Organizational Behavior**

The following suggestion of case analysis is designed for a 90-minute slot and focuses on the organizational elements present on the case.

#### **1. Introduction (10 min)**

The discussion should start by asking students if they are wearing Portuguese shoes, making them discover their shoes' origin. Then, the instructor should go through a quick overview of the case's most important moments, a timeline with a quick characterization of what was happening at the time.

- What were the crucial moments?
- Who were the major intervenients?
- What was happening to the industry in each moment?

#### **2. What role should trade associations have as sector leaders? (20 min)**

Move the discussion towards the role of the leader in a large field association such as APICCAPS.

Start with an open the discussion around the questions:

- What would you do if you were some trade association's general manager?
- You are in charge of providing guidance for around 1300 companies with very different abilities and resources. What can you say that will resonate with all of them? If not with all of them, where do you begin?

The discussion can then focus on APICCAPS.

- Leadership style – What role does Manuel Carlos play? How can he be an effective leader?



- Vision – Does he appear to have a vision of his own? Do you think anyone at APICCAPS is a visionary? Where does their vision come from?
- Authority – Did APICCAPS have any authority? If so, how did it gain it?
- Contexts – What contexts were created by APICCAPS that allowed the leadership process to be effective?

**3. Why did Manuel Carlos choose a positive leadership management style? And, what effects did it have in its membership base? (25 min)**

At this point, after having gone through the facts of APICCAPS' history, the discussion can use APICCAPS' special case as a trampoline onto a more general discussion on positive leadership.

- Leader – How was Manuel Carlos as a leader? Why did he decide not be a public personality?
- Culture - How would you characterize APICCAPS' culture?
- Positive leadership – What is it? How important was the focus on the solutions, rather than on the problems?
- Traits vs behavior - Do you think APICCAPS deliberately chose a positive leadership model?  
The case doesn't give us much detail about the initial times of the association but the discussion "trait vs behavior" can still be a valid one.
- Motivation – What kept company owners/managers motivated? Did jealousy have anything to do with it?
- Effects - What effects did positive leadership have?
  - What were the effects of the open days/*demonstration actions*?
  - Did it incentivize copy/envy? Can that be good?
  - Was it a simple way to solve the lack of formal authority?
- Communication – Does positive leadership have an effect on communication? Does it facilitate communication? Did it solve the issue of how to communicate simultaneously with all different type members? Could they all relate with the message?
- Errors – Did positive leadership stand in the way of helping companies learn from their mistakes, as well as, from the mistakes of others?

**4. Should the experience be transferable to other sector associations? How can it be transferred to companies? (20 min)**

One of the most interesting questions regarding this case is the transferability of leadership style to other associations or companies.

- Transferability - Do you think this kind of leadership can be used anywhere? Would it work in any sector? For example would it work in sectors that are used to get subsidies?
- Changing cultures - Does the culture of an organization have to change so this style can be successfully implemented?
  - What are the dangers of implementing a positive leadership approach without a radical change in the company culture?
  - Leader vs Followers – How important are the followers in the implementation of a positive leadership model by the leader?

- Positive leadership in hierarchal companies - How would actual authority relationships work?
  - Succession - Manuel Carlos is general manager since 1977 and is past 60. Can such a positive approach be continued without Manuel Carlos?
- 5. It would be interesting to know how the leadership style described in this case compares with the kind of leadership that students have experienced. How relevant would positive leadership be in their context? Can the case facilitate their vicarious learning? (10 min)**
- 6. Conclusion (5 min)**

At this point the instructor should wrap-up by listing how the new field of positive organizational behavior is evolving, and how the case illustrates the dynamics of the triangle leader/followers/context.

### **Case analysis – Cluster strategy**

The following analysis is designed for a 90-minute slot and focuses on the strategy elements present on the case.

#### **1. Introduction (10 min)**

The discussion should start by asking students if they are wearing Portuguese shoes, making them discover their shoes' origin. Then, go through a quick overview of the case's most important moments, a timeline with a quick characterization of what was happening at the time.

- What were the crucial moments?
- Who were the major intervenients?
- What was happening with the global industry at each moment?
- What were the key strategic moves the Portuguese industry took?

#### **2. What role should trade associations have as strategy makers? (20 min)**

Move the discussion towards the role of the leader in a large field association such as APICCAPS.

Start with an open the discussion around the questions:

- What would you do if you were some trade association's general manager?
- You are in charge of providing guidance for around 1300 companies with very different abilities and resources. What can you say that will resonate with all of them? If not with all of them, where do you begin?

Then, the discussion can then focus on APICCAPS.

- Lobbying for support vs allowing competition - Why is the promotion of open field competition essential for the success of a cluster?

The usual role of a trade association is to defend its members to foreign competition and to lobby institutions (unions, government, suppliers, etc.) in order to get all possible shielding support.

- Authority - What are the major issues an association such as APICCAPS has to face?  
Lack of authority; lack of resources; very different membership base in terms of strategic options.
- What else can a trade association do?  
Let students list all the things trade associations can do dividing them in to two categories: lobbying vs free competition. Add the missing ones. Discuss the pros and cons of each.

According to Porter “Associations can take the lead in such activities as:

- establishing university-based testing facilities and training or research programs;
- collecting cluster-related information;
- offering forums on common managerial problems;
- investigating solutions to environmental issues;
- organizing trade fairs and delegations;
- and managing purchasing consortia.”<sup>iv</sup>

### 3. What were APICCAPS’ key initiatives in making the industry successful? (10 min)

After discussing an association’s role, look into APICCAPS’ and understand what was done right, and which opportunities were missed.

- Strategic Vision – How important were the strategic plans?  
Many industries have these kind of strategic plans, so why have these been so important?
- Productivity –How did the decision to promote internal competition and competition in the global market influence productivity?
- Quality – Why did the industry focused on leather?  
Do you think including the leather producers as APICCAPS members influenced the strategy? How?  
Currently, national leather supplies only about 10% of the needs but, in the 1970s, having a reliable supply of leather in terms of quality, quantity and price was essential. This goal was only achieved with the association of leather and footwear producers under the same entity.
- Structural funds – Where were they spent? How important were they?
- R&D – The Technological Center is a good example of what working with the government can do for you.

### 4. Has the strategy chosen to fight Asian competitors been successful? Was that the case in 2005? (15 min)

It can be useful to look at 2001 and discuss what other strategic alternatives there were for industry and why these were not pursued.

- Strategy - Did other credible alternatives exist? The class can be called upon for suggestions.
  - Diversification – Why did the industry stick with leather as the main export?

- Brands – The Portuguese footwear industry has been globally competitive for the past 30 years. Why has not yet managed to create truly global brands?  
Note that usually retail and production have antagonistic attitudes and opposing goals, and need very different expertise, which is difficult to acquire.
- Geographic expansion – Why hasn't the industry been able to compete outside Europe?

Discussing the 5-action points that Porter had for the industry would be a way to look at the missing links to other strategic moves:

- Improve quick response processes
- Improve productivity and marketing via work developed by a Technological Center
- Improve suppliers relations
- Develop footwear design via a design center
- Promote companies and suppliers clubs

#### **5. Is the experience transferable to other industries or companies? Why? (20 min)**

One of the most interesting questions regarding this case is the transferability of the strategic options to other industries. Can other Portuguese or European clusters follow the footwear approach in dealing with Asian competitors?

- Transferability – Would this strategy work in other sectors? For example would it work in subsidized sectors?
- Drivers – What were the drivers for productivity?
- Structural funds – How were the structural funds spent in other industries?
- Textiles – A comparison with the textile industry is valuable.  
From 1974 to 2005, fiber-agreements safeguarded textiles' industries in developed nations from the ones in developing countries. These agreements imposed production quotas, which impeded developing countries from exporting freely around the globe. The impact was tremendous. First, it interfered with free competition within the textiles' industry, removing the incentive to increase productivity that pressed the footwear industry. Second, it had an unpredicted effect: the production quotas made industries in some developing countries focus on productivity increases from early on, producing high-end clothing to go around the imposed limitation on the number of garments they could produce. Consequently, it was more difficult for the Portuguese textile industry to find a viable strategy to compete.
- Succession – Manuel Carlos has been the general manager since 1977 and is over 60. Can this effort be continued without him?

#### **6. What is the way forward? Is the industry ready for the continued innovation phase? (10 min)**

What are the challenges ahead for the industry as it tries to continue growing?

- Growth – What do you think of APICCAPS' strategies for growth? Are they sustainable in the long term?

- Innovation – Can APICCAPS boost innovation while promoting geographic expansion? Did the strategic plans create a monolithic vision of present and future strategic options?
- Expansion – How can the industry expand into other continents? Should it follow the same quick response tactic?

**7. Conclusion (5 min)**

The instructor should wrap-up discussing Porter's diamond, along with requirements and drivers for innovation, focusing on clusters' importance in the overall economic development of a country, and on its role on the continued innovation within an industry.

**Bibliographical Support**

The discussion can be supported by the following texts:

*Organizational Behavior*

- Kellerman, Barbara (2012), “The End of Leadership”. Harper Business.
- Luthans, Fred (2002), “Positive organizational behavior: Developing and managing psychological strengths”. The Academy of Management Executive, Vol. 16, No. 1, Feb.
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- Anderson, Poul Houman (2006), “Regional Clusters in a Global World- Production Relocation, Innovation, and Industrial Decline”. California Management Review Vol. 49, No. 1 Fall.
- Freire, Adriano (1998), “Internacionalização – Desafios para Portugal”, Verbo Vol. I & II.
- Monitor Company directed by Michael E. Porter (1994), “Construir as vantagens competitivas de Portugal”. Edited by Fórum para a Competitividade.
- Porter, Michael E. (1998), “Clusters and the New Economics of Competition”, Harvard Business Review, November.
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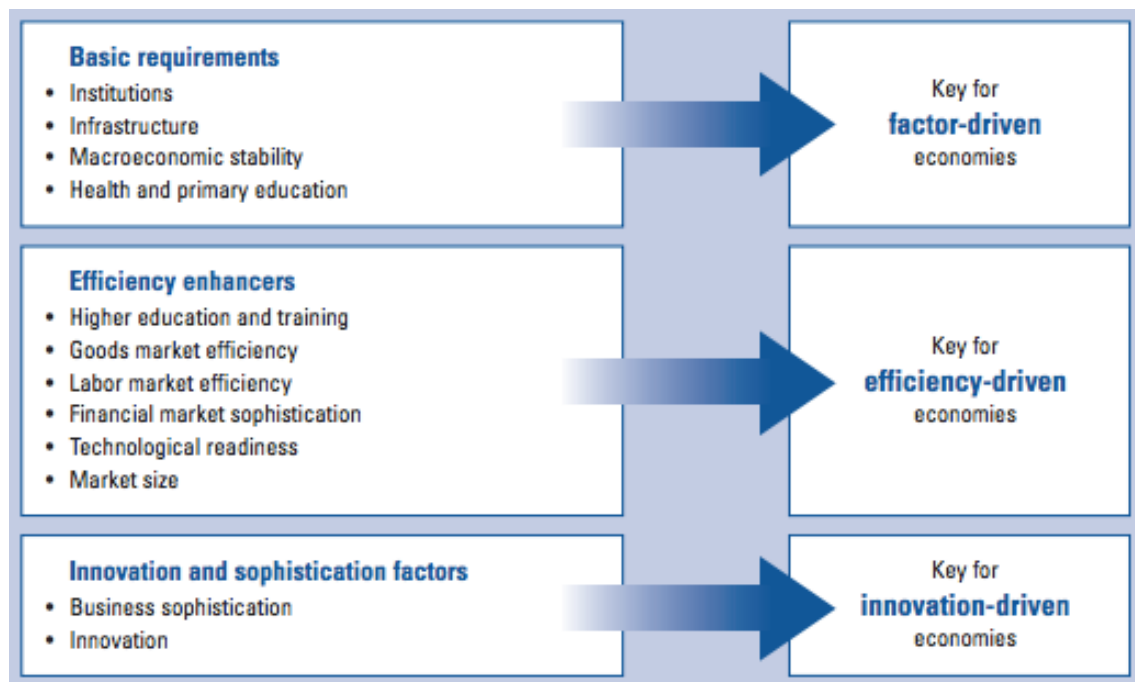
**Exhibit 2TN:** Porter's conclusion on 2002 reevaluation

- The central challenge is microeconomic
- Portugal's new strategy must focus on competitiveness and productivity
  - A long-term program to upgrade the business environment
  - A long-term program to build innovative capacity
- Aggressive cluster development throughout the economy must become a national priority



- Leaders must create a national economic vision to inspire and motivate the Portuguese people

**Exhibit 3TN:** 12 Pillars of Competitiveness, The Global Competitiveness Index: Measuring the Productive Potential of Nations, Sala-I-Martin et al, (2007)





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- <sup>i</sup> Luthans, Fred (2002), Positive organizational behavior: Developing and managing psychological strengths. The Academy of Management Executive, Vol. 16, No. 1, Feb.
- <sup>ii</sup> Luthans, Fred (2002), “The need for and meaning of positive organizational behavior”. Journal of Organizational Behavior, Volume 23, Issue 6, pages 695–706, September.
- <sup>iii</sup> Seligman, Martin, Csikszentmihalyi, Mihaly (2000), “Positive Psychology: An Introduction”. American Psychologist.
- <sup>iv</sup> Michael E. Porter (1998), “Clusters and the New Economics of Competition”. Harvard Business School Press.
- <sup>v</sup> W.W. Rostow (1960), “The Stages of Economic Growth: A Non-Communist Manifesto”. Cambridge University Press.
- <sup>vi</sup> Michael E. Porter (1990), “The Competitiveness of Nations”. Free Press.
- <sup>vii</sup> Sala-I-Martin et al (2007), “The Global Competitiveness Index: Measuring the Productive Potential of Nations”. World Economic Forum.
- <sup>viii</sup> Monitor Company directed by Michael E. Porter (1994), “Construir as vantagens competitivas de Portugal”. Edited by Fórum para a Competitividade.